

**COUNTY OF BERNALILLO NEW MEXICO**  
**Management's Discussion and Analysis**  
**June 30, 2008**

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on pages i-v of this report.

**Financial Highlights**

- The government-wide assets of the County exceed its liabilities as of June 30, 2008 by \$554,145,015, an increase of \$73,890,023 or a 15.4% increase. Of this amount, \$311,111,090 is invested in capital assets, net of related debt. Of the remaining balance, \$146,792,506 is restricted for specific purposes and \$96,241,419 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- As of June 30, 2008, the County's governmental activities and business type activities have net assets of \$549,196,736 and \$4,948,279 respectively.
- The general fund beginning balance increased by \$51,595 from \$146,704,783 to \$146,756,378 as a result of the reclassification of the Series 1996 Debt Service Fund (\$58) and the 1997 Revenue Bond Fund (\$51,537) into the general fund.
- The fund balance in the County's general fund increased from \$146,704,783 in FY07 to \$171,886,811 in FY08, an increase of \$25,182,028 or a 17.2% increase. Of this amount, \$64,204,173 or 37.4% of the general fund is for the DFA required reserve and \$32,337,943 or 18.8% is for subsequent years' expenditures.
- The County was able to maintain adequate reserves in the amount of \$64,204,173 as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY09.
- During the year, the County sold \$21,500,000 of General Obligation Bonds (Series 2007, Series 2007A & Series 2008). This included \$9,400,000 for roads, \$3,500,000 for storm drains, \$2,200,000 for parks and recreation, \$4,300,000 for Sheriff's facilities improvements, \$1,100,000 for ADA facilities improvements and \$1,000,000 for library books. Also, the County issued \$11,000,000 of Gross Receipts Tax Revenue Refunding Bonds, Series 2008, with an average interest rate of 4%, to advance refund \$10,500,000 of the Series 2004 Gross Receipts Tax Revenue Bonds outstanding. In addition, the County partially defeased the Series 2002A General Obligation Bonds in the amount of \$5,645,000.
- The County has \$428,809,497 in available bonding capacity or 81.27% of allowable bonding capacity per the New Mexico State Constitution (see page 158).

- The County property valuations increased 11.2% from \$11.86 billion in FY07 to \$13.19 billion in FY08 (see page 151).
- The County maintained its AAA rating with Standard & Poor's Rating Service, Aa1 rating with Moody's Investors Service, Inc. and AA+ rating with Fitch Ratings for its General Obligation Bonds. In addition, the County maintained its AAA rating with Standard & Poor's Rating Service and AA rating with Fitch Ratings for its Gross Receipt Tax Revenue Bonds.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenues in the year in which they are levied. The statement of net assets presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. The statement of activities presents information showing how the County's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements differentiate functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public works, public safety, health and welfare, culture and recreation and interest on long-term debt. The business-type activities of the County include Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, Regional Juvenile Detention Center, and El Centro Familiar. The government-wide financial statements can be found on pages 29-30 of this report.

**Fund financial statement.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at

the end of the fiscal year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the County maintains forty-four other individual governmental funds of which twenty are classified as Special Revenue funds, eleven are classified as Debt Service funds, and thirteen are classified as Capital Projects funds. Information for the General fund and the TRAN Debt Service fund, both of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 35. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 31-35 of this report.

**Proprietary funds.** The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Solid Waste, Bernalillo County Housing Authority, Seybold Village Handicapped Project, Regional Juvenile Detention Center, and El Centro Familiar. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 36-38 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 39 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 40-73 of this report.

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 74-124 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's governmental-wide net assets exceed liabilities by \$554,145,015 for the fiscal year ending June 30, 2008. By far the largest portion of the County's net assets (56 percent) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. In the prior year, the County's investment in capital assets was 63% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### County of Bernalillo Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Assets:</b>						
Current and other assets	\$391,073,628	\$343,370,899	\$3,083,259	\$ 3,585,866	\$394,156,887	\$346,956,765
Capital assets	537,084,721	514,707,039	5,534,006	4,919,507	542,618,727	519,626,546
Total assets	928,158,349	858,077,938	8,617,265	8,505,373	936,775,614	866,583,311
<b>Liabilities:</b>						
Long-term liabilities	261,412,153	267,122,552	2,835,693	3,001,123	264,247,846	270,123,675
Other liabilities	117,549,460	115,237,017	833,293	967,627	118,382,753	116,204,644
Total liabilities	378,961,613	382,359,569	3,668,986	3,968,750	382,630,599	386,328,319
<b>Net Assets:</b>						
Invested in capital assets, net of related Debt	308,271,760	299,526,749	2,839,330	3,196,311	311,111,090	302,723,060
Restricted	146,792,506	106,094,221	-	-	146,792,506	106,094,221
Unrestricted	94,132,470	70,097,399	2,108,949	1,340,312	96,241,419	71,437,711
Total net assets	\$549,196,736	\$475,718,369	\$4,948,279	\$4,536,623	\$554,145,015	\$480,254,992

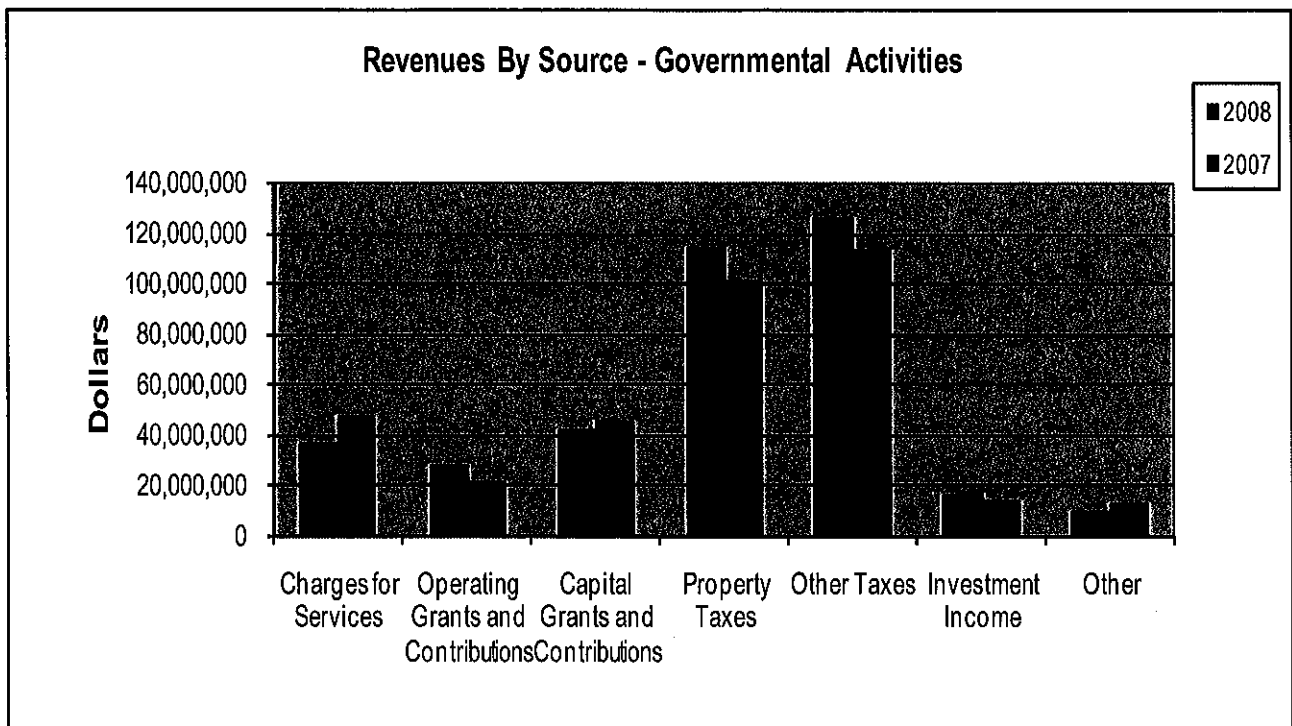
Restricted net assets in the amount of \$146,792,506 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$96,241,419 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, and for the government as a whole, as well as for its separate governmental and business-type activities.

**Governmental activities.** Governmental activities during the year increased the County's net assets by \$73,478,367 in FY08 as compared to \$88,681,202 in FY07.

***County of Bernalillo's Changes in Net Assets***

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$36,526,325	\$47,052,175	\$5,982,619	\$5,151,503	\$42,508,944	\$52,203,678
Operating grants and contributions	28,140,881	21,737,089	498,482	582,992	28,639,363	22,320,081
Capital grants and contributions	41,992,908	45,766,629	433,981	482,594	42,426,889	46,249,223
General revenues:						
Property taxes	113,789,778	101,617,379	-	-	113,789,778	101,617,379
Other taxes	126,144,704	112,599,176	-	-	126,144,704	112,599,176
Investment income	16,046,244	13,833,232	83,879	103,533	16,130,123	13,936,765
Other	9,525,633	12,949,329	383,895	117,150	9,909,528	13,066,479
Total revenues	372,166,473	355,555,009	7,382,856	6,437,772	379,549,329	361,992,781
Expenses:						
General government	45,609,786	47,569,157	-	-	45,609,786	47,569,157
Public works	52,518,685	32,604,280	-	-	52,518,685	32,604,280
Public safety	143,867,733	129,957,959	-	-	143,867,733	129,957,959
Health and welfare	28,083,075	25,862,321	-	-	28,083,075	25,862,321
Culture and recreation	12,637,946	15,337,172	-	-	12,637,946	15,337,172
Interest on long-term debt	15,585,987	15,221,474	-	-	15,585,987	15,221,474
Solid Waste	-	-	4,910,418	4,483,095	4,910,418	4,483,095
Housing Authority	-	-	860,653	847,572	860,653	847,572
Seybold Village	-	-	235,027	172,947	235,027	172,947
Juvenile Detention Center	-	-	923,826	1,158,479	923,826	1,158,479
El Centro Familiar	-	-	426,170	354,557	426,170	354,557
Total expenses	298,303,212	266,552,363	7,356,094	7,016,650	305,659,306	273,569,013
Increase (decrease) in net assets before transfers	73,863,261	89,002,646	26,762	(578,878)	73,890,023	88,423,768
Transfers in (out)	(384,894)	(321,444)	384,894	321,444	-	-
Increase in net assets	73,478,367	88,681,202	411,656	(257,434)	73,890,023	88,423,768
Net assets –beginning	475,718,369	387,037,167	4,536,623	4,794,057	480,254,992	391,831,224
Net assets – ending	\$549,196,736	\$475,718,369	\$4,948,279	\$4,536,623	\$554,145,015	\$480,254,992

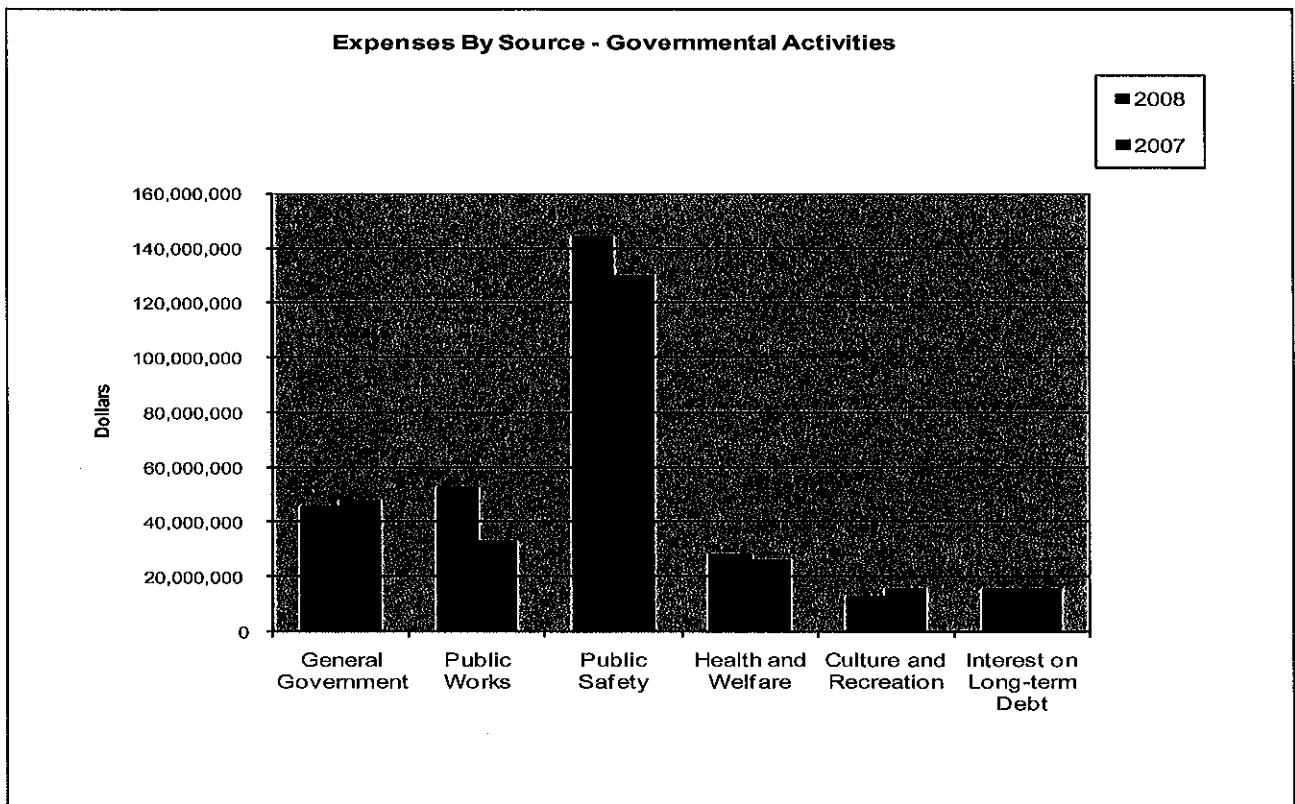


Governmental Activities revenues increased by \$16.7 million from \$355.5 million in FY07 to \$372.2 million in FY08, an increase of 4.7%. Key elements in the growth of governmental activities revenues are as follows:

- Program revenues charges for services decreased by \$10.5 million from \$47.0 million in FY07 to \$36.5 million in FY08, a 22.3% decrease. The decrease was attributed to a \$6.2 million decrease in fees collected from the City of Albuquerque to offset operational costs at the Metropolitan Detention Center (MDC) in FY08. In addition, fees collected for housing inmates at the Regional Correction Center decreased by \$9.9 million as a result of the U.S. Immigration and Customs Enforcement (ICE) no longer housing inmates at the facility.
- Program revenues operating grants and contributions increased by \$6.4 million from \$21.7 in FY07 to \$28.1 million in FY08, a 29.5% increase. A significant portion of the increase was attributed to an increase of \$3.5 million in funding received from the state for the County's DWI program from \$3.2 million in FY07 to \$6.7 million in FY08. In addition, there was an increase in funding from Housing and Urban Development (HUD) of \$1.7 million for the County's Section 8 Voucher program. There was also funding received in the amount of \$255 thousand for the County's summer lunch program, \$437 thousand received for the County's drug trafficking program, \$192 thousand received from the justice assistance grant (JAG) for drug control systems, \$116 thousand received for a state-wide traffic system, and other additional operating grants received in FY08 related to public safety.
- Program revenues capital grants and contributions decreased by \$3.8 million from \$45.8 million in FY07 to \$42.0 million in FY08, an 8.3% decrease. A significant portion of the decrease was attributed to a decrease in revenues for Storm Sewer and Road construction projects from \$12.6

million in FY07 to \$2.5 million in FY08 with the majority related to the Isleta Phase II road and storm sewer construction projects which were completed in FY07. In addition, there was an increase in revenue in FY08 of \$1.3 million related to the construction of the Metropolitan Assessment and Treatment Service (MATS) transitional housing and intake area facility, \$2.3 million for the purchase of a helicopter for the Sheriff's Department, \$755 thousand for alcohol testing equipment and other equipment for the Sheriff's Department, and \$475 thousand for the construction of the Rape Crisis Center Facility. There was also an increase in revenue in FY08 of \$782 thousand for the construction of the Fisher Smith Gymnasium, \$1.1 million for the construction of the Vista Grande Community Center Gymnasium, \$225 thousand for the construction of the Clinton P. Anderson Open Space Park, and \$275 thousand for the construction of the South Valley Health Center.

- General revenues property taxes increased \$12.2 million from \$101.6 million in FY07 to \$113.8 million in FY08, a 12.0% increase. The increase was attributed to an increase in the taxable valuation within the County of \$1.323 billion from \$11.868 billion to \$13.191 billion, an increase in the County's operational residential mill levy from 6.113 to 6.183, and an increase in the County's non-residential mill levy rate from 10.650 to 10.800 per \$1,000 of assessed taxable value. The increase in revenue was slightly offset by a decrease in the current property tax collection rate from 96.36% in FY07 to 95.86% in FY08.
- General revenues other taxes increased \$13.5 million from \$112.6 million in FY07 to \$126.1 million in FY08, a 12.0% increase. A significant portion of the increase was attributed to a gross receipts tax rate increase of 1/16% for the County's Health Care Fund which became effective on January 1, 2007. The tax increase generated approximately \$6.0 million in additional revenue as the tax increase was in effect for the full year in FY08. In addition, on January 1, 2007 the County enacted a second 1/16% gross receipts tax which was remitted to the State of New Mexico to fund the county-supported Medicaid Fund. In prior years, the tax was remitted to the state by the University of New Mexico Hospital on behalf of the County. This tax generated approximately \$7.0 million in additional revenue as it was in effect for a full year in FY08. There was also an increase in motor vehicle tax revenue to the County of \$500 thousand in FY08.
- General revenues investment income increased \$2.2 million from \$13.8 million in FY07 to \$16.0 million in FY08, a 15.9% increase. The increase was attributed to a better rate of return on short-term investments, the elimination of the fiscal agent bank pegged balance which allowed for additional funds to invest and an increase in additional revenue to invest as a result of increased property tax and gross receipts tax revenue in FY08. In addition, there was excellent investment management performed by the County Treasurer and an investment committee which oversees investment strategy monthly.
- Other revenues decreased \$3.4 million from \$12.9 million in FY07 to 9.5 million in FY08, a 26.3% decrease. The decrease was primarily attributed to a reduction in the amount of donations in infrastructure of \$2.1 million. In addition, the reduction was attributed to the allocation of unallocated revenue from FY07 and the FY06 to the appropriate fund and revenue line items in FY08.



Governmental activities expenses increased by \$31.7 million from \$266.6 million in FY07 to \$298.3 million in FY08, an increase of 11.9%. Key elements in the change in governmental activities expenses, other than a 4% pay increase for non-represented employees and an average 5% pay increase for represented employees, are as follows:

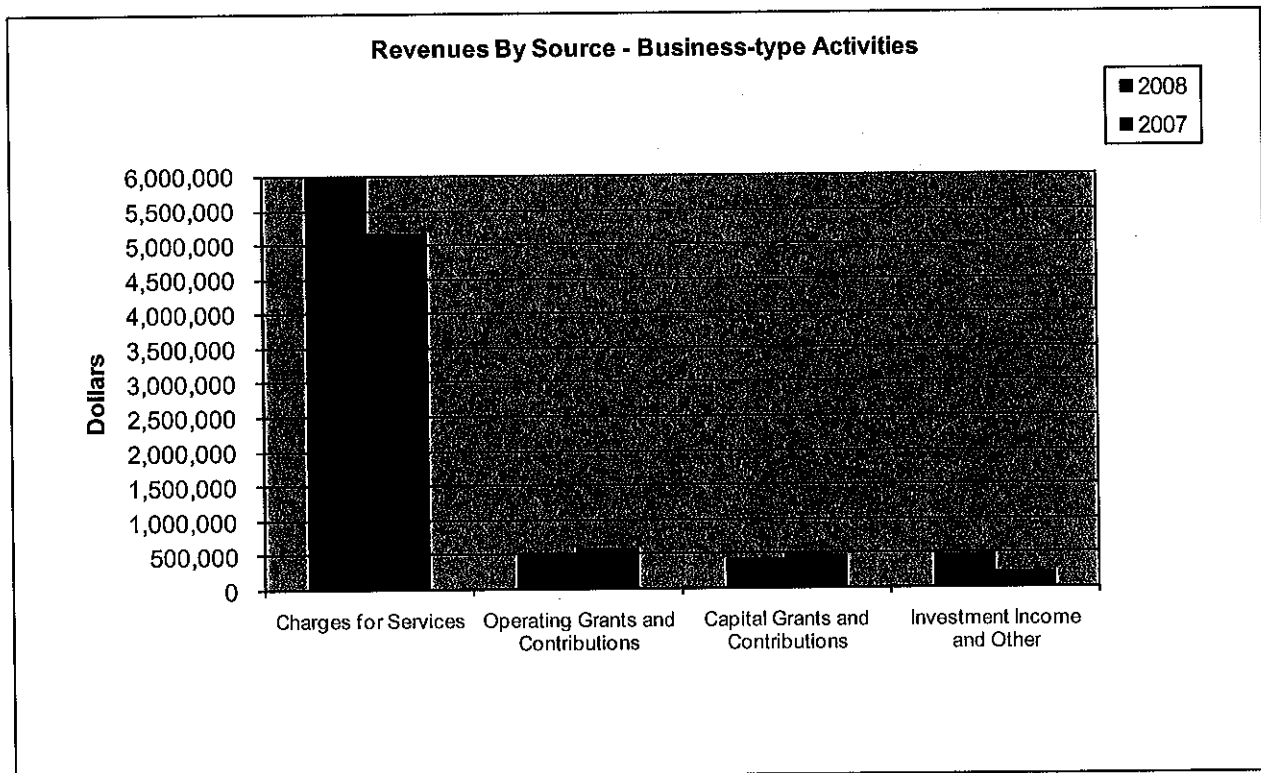
- General government expenses decreased by \$2.0 million from \$47.6 million in FY07 to \$45.6 million in FY08, a 4.2% decrease. The decrease in general government expenses was primarily attributed to the reclassification of DWI Services Fund expenditures from the “general government” category to the “public safety” category in FY08.
- Public works expenses increased by \$19.9 million from \$32.6 million in FY07 to \$52.5 million in FY08, a 61.0% increase. The majority of the increase was attributed to the reclassification of expenses which were not capitalized as they were related to capital outlay for other entities. A significant portion of the increase was attributed to \$11.1 million in costs associated with the Valley Utilities Project and \$5.9 million for road construction projects. There was also an increase in costs of \$0.4 million for library construction, \$0.2 million for storm sewer construction, and \$0.3 million in impact fees for capital improvement. In addition, there was an increase in depreciation expense of \$1.2 million related to equipment, real estate and infrastructure.
- Public safety expenses increased by \$14.0 million from \$129.9 million in FY07 to \$143.9 million in FY08, a 10.8% increase. The majority of the increase was attributed to the administration and operation of the Metropolitan Detention Center (MDC). MDC salaries and fringe benefits increased \$5.5 million as a result of a pay increase in FY08 and the addition of needed personnel. Additional expenditure increases at the MDC included \$1.7 million in contractual services, \$1.8



million in carryover expenses and \$0.5 million in insurance costs. Another portion of the increase is attributed to \$2.3 million in expenditures by the Sheriff's Department to purchase a helicopter. In addition, there was an increase in salaries and fringe benefits for the Sheriff's Department personnel of approximately \$1.6 million as a result of a 4% pay increase. There was also an increase in depreciation expense of \$1.7 million related to equipment and real estate and expenses in the DWI Services Fund that were reclassified from the "general government" category in FY08.

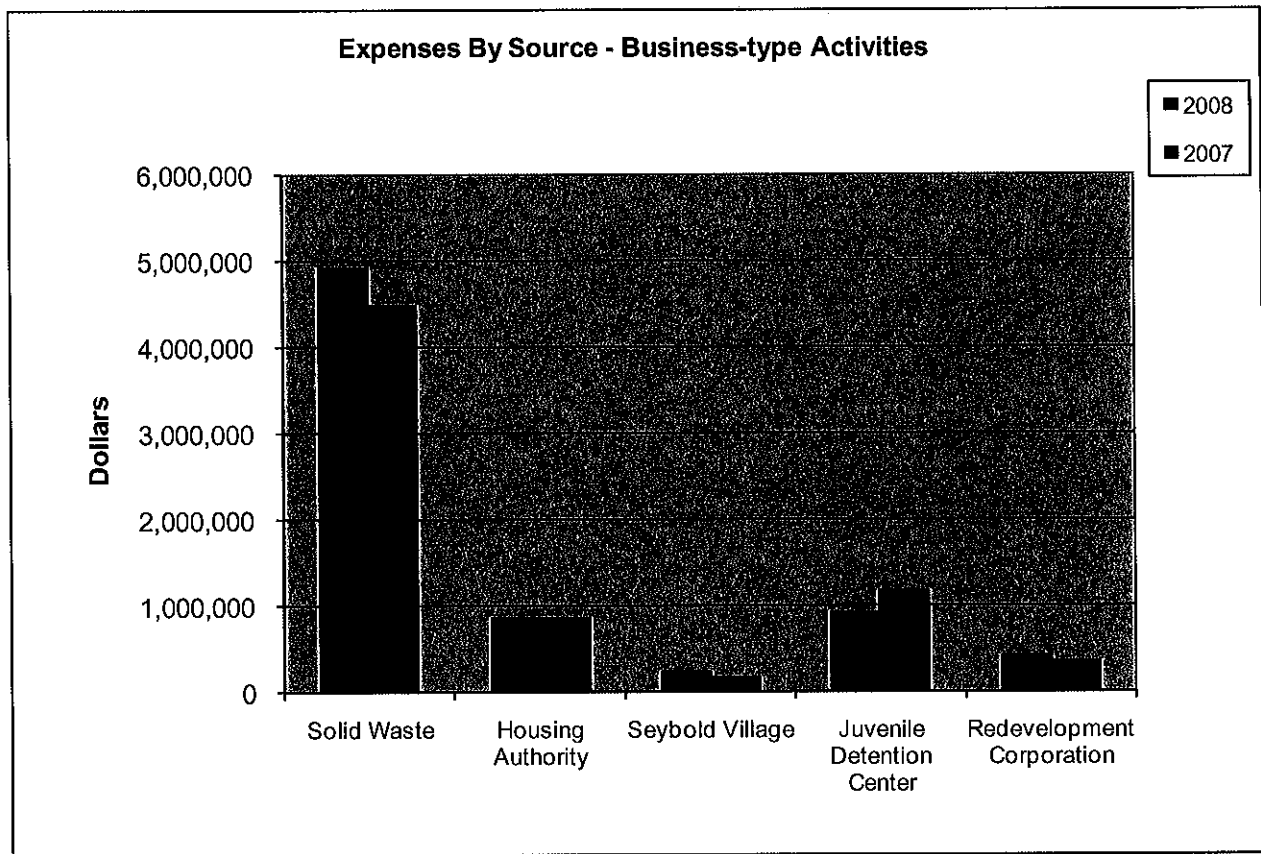
- Culture and recreation expenses decreased by \$2.7 million from \$15.3 million in FY07 to \$12.6 million in FY08, a 17.6% decrease. The decrease was attributed to the reclassification of expenditures from the "culture and recreation" category to capital outlay in FY08.

**Business-type activities.** Business-type activities net assets increased by \$411,656 during the current fiscal year. During the year, a budgeted cash transfer of \$384,894 was made from the County's Governmental Activities to the Solid Waste fund to cover a program deficit from the prior year. Also during the year, the Bernalillo County Housing Authority had more program revenue than program expenses resulting in an increase in net assets of \$447,232. The Solid Waste fund, the Seybold Village Handicapped Project, the Regional Juvenile Detention Center, and the El Centro Familiar incurred losses of \$184,322, \$91,268, \$64,695, and \$80,185 respectively before capital contributions and operating transfers in. These losses represent the degree to which ongoing program expenses have outstripped ongoing program revenues. Overall, the business-type activities experienced an \$803,857 operating loss (program revenues less expenses) before non-operating revenues of \$830,619.



Business-type activities revenue increased from \$6.438 million in FY07 to \$7.383 million in FY08, a 14.7% increase. Key elements in the increase of business-type activities revenue are as follows:

- Revenue program charges for services increased from \$5.1 million in FY07 to \$6.0 million in FY08, a 17.6% increase. The increase was primarily attributed to the fourth quarter FY07 solid waste billings which were mailed late to customers by Waste Management, our billing and collection agency. This resulted in more collections and distribution of fees to the County at the beginning of FY08. In addition, solid waste fee collections were more favorable in FY08 with over \$1.0 million more than in FY07. There was also an increase of approximately \$537 thousand in fees at the Housing Authority as a result of a new accounting process related to payroll which is now charged to the Housing Authority program and then distributed to the other housing programs with an offset to management fee overhead revenue in the Housing Authority fund. There was also less in charges for services at the Regional Juvenile Detention Center of approximately \$313 thousand as a result of a new joint powers agreement with Sandoval County in FY08 and additional in rental income from tenants of approximately \$60 thousand in the El Centro Familiar program.
- Revenue program operating grants and contributions decreased from \$582,992 in FY07 to \$498,482 in FY08, a decrease of 14.5%. The majority of the decrease was attributed to the reclassification of \$187 thousand in recycling revenue to the “other” category in FY08. In addition, there was a decrease of \$61 thousand in Housing and Urban Development (HUD) grant subsidies in the El Centro Familiar program in FY08. There also was an increase of \$124 thousand in the Housing Authority program due to the reclassification of county contributions from the “other” category in FY08.
- Revenue program capital grants and contributions decreased from \$482,594 in FY07 to \$433,981 in FY08, a decrease of 10.1%. The decrease was primarily attributed to a decrease in home rehabilitation grant revenue of \$60,755 in the Housing Authority program in FY08. In addition, there was slightly more capital grant revenue in the Seybold Village Handicapped Project from HUD in FY08.
- General revenues investment income decreased from \$102,533 in FY07 to \$83,879 in FY08, a decrease of 18.2%. The decrease was attributed to a decrease in the rate of return on investments in the Housing Authority, the El Centro Familiar, and the Seybold Village Handicapped Project as a result of the volatile market in FY08.
- Other revenues increased from \$117,150 in FY07 to \$383,895 in FY08. The increase was attributed to the reclassification of “other income” in the enterprise programs to the “other” revenue category in FY08 which was reflected in the “operating grants and contributions” category in FY07. The revenue consists of \$187 thousand of recycling revenue in the Solid Waste program and other income from the Housing Authority and the El Centro Familiar programs.



Business-type activities expenses increased from \$7.0 million in FY07 to \$7.3 million in FY08, a 4.3% increase. Key elements in the increase are as follows:

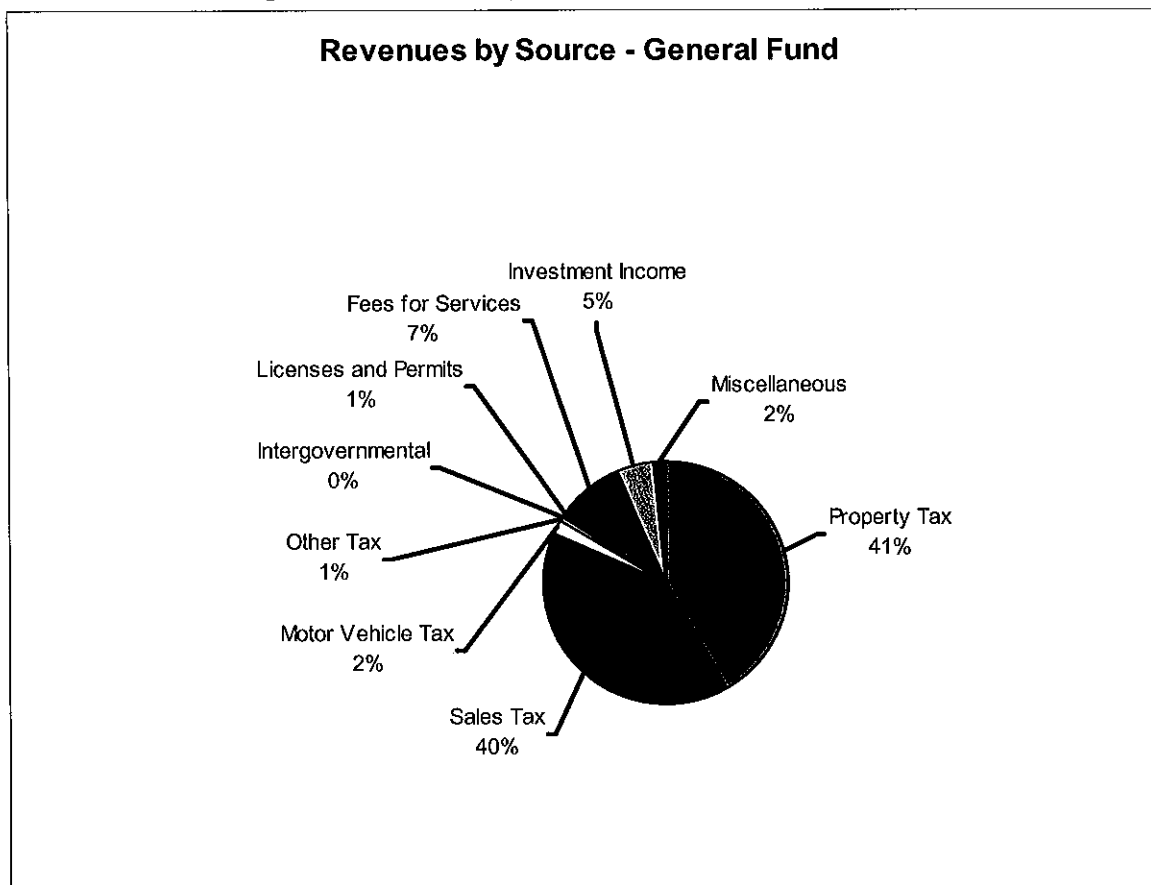
- Solid Waste expenses increased from \$4.5 million in FY07 to \$4.9 million in FY08, an 8.9% increase. A significant portion of the increase was attributed to the increase in fees paid to Waste Management to bill and collect for solid waste services provided by the County.
- Housing Authority expenses increased from \$847 thousand in FY07 to \$861 thousand in FY08, a 1.6% increase. A significant portion of the increase was due to an increase in interest expense on bonds payable and an overall increase in operating expenses.
- Seybold Village expenses increased from \$173 thousand in FY07 to \$235 thousand in FY08, a 35.8% increase. The increase is primarily attributed to an increase in other operating expenses including materials and supplies, telephone, water, electricity, gas, etc.
- Juvenile Detention Center expenses decreased from \$1.158 million in FY07 to \$924 thousand in FY08, a 20.2% decrease. The decrease is primarily attributed to a decrease in operating expenses as a result of the termination of the joint powers agreement (JPA) on June 26, 2007 between Bernalillo County, Sandoval County and Valencia County which was established on June 26, 1996. A new JPA between Bernalillo County and Sandoval County was approved by the County Commission on June 26, 2007 with an established budget of approximately \$957 thousand which resulted in lower operating expenses in FY08. See notes to the financial statements.

## ***Financial Analysis of the County's Funds***

**Governmental Funds.** The focus of the County's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$294,313,566, an increase of \$56.2 million. Approximately 58.8% of this total, \$173,144,613 constitutes unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to DFA 3/12 reserve requirement \$64,204,173, 2) \$35,093,698 in encumbrances to liquidate contracts and purchase orders of the prior period, 3) \$19,360,764 to pay debt service, and 4) \$2,510,318 for a variety of other restricted purposes.

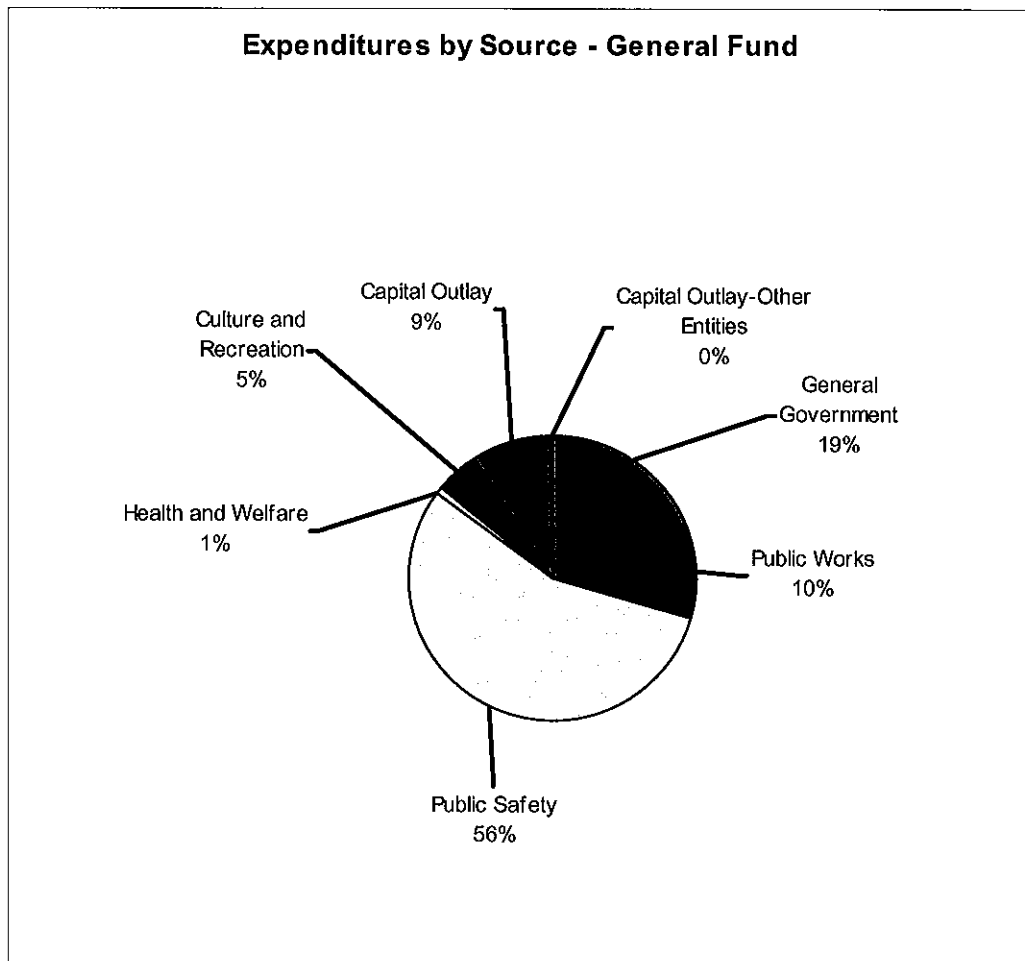
**General Fund.** The County's general fund balance increased \$25,182,028 during the current fiscal year. A small portion of this increase was attributed to the reclassification of the Series 1996 Debt Service Fund (\$58) and the 1997 Revenue Bond Fund (\$51,537) totaling \$51,595 into the general fund. Additional key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.



General Fund revenues increased \$5.7 million from \$234.4 million in FY07 to \$240.1 million in FY08, an increase of 2.4%. Key elements in the growth of General Fund revenues are as follows:

- Property tax revenue increased by \$12.1 million or 13.6% from \$88.8 million in FY07 to \$100.4 million in FY08, which accounts for the majority of the revenue increase in the general fund during the year. The increase was attributed to an increase in the taxable valuation within the County of \$1.323 billion from \$11.868 billion to \$13.191 billion, an increase in the County's operational residential mill levy from 6.113 to 6.183, and an increase in the non-residential mill levy rate from 10.650 to 10.800 per \$1,000 of assessed taxable value. The increase in revenue is slightly offset by a decrease in the current property tax collection rate from 96.36% in FY07 to 95.86% in FY08.
- Gross receipts tax revenue (GRT) decreased by \$4.3 million from \$100.1 million in FY07 to \$95.8 million in FY08, a 4.3% decrease. In FY07 the County enacted a tax rate increase of 1/16% from 5.6875% to 5.7500 for the County's Health Care Fund which was effective on January 1, 2007 and generated approximately \$5 million. The decrease was attributed to the fact that in FY07, the funds were receipted to the General Fund and in FY08 the funds, which totaled approximately \$10 million, were receipted to the Health Care Fund established in FY08 to account for this special GRT. The \$5 million decrease was slightly offset by a modest increase in General County GRT revenue in FY08.
- Fees for services decreased by \$1.9 million from \$21.1 million in FY07 to \$19.2 million in FY08, a 9.0% decrease. The decrease was attributed to a \$6.2 million decrease in fees collected from the City of Albuquerque in FY08 versus FY07 to offset operational costs for MDC operations. The decrease is offset by a \$3.9 million increase in fees collected at the MDC in the amounts of \$1.6 million for commissary sales, \$1.2 million for the state "feed and care of parole violators" program, \$678 thousand for the "state criminal alien assistance program", and \$500 thousand for the community custody reimbursement grant. In addition, there was an increase of design/review fees collected of \$600 thousand.
- Investment income increased \$1.5 million from \$10.0 million in FY07 to \$11.5 million in FY08, an increase of 15%. The increase was attributed to a better rate of return on short-term investments, the elimination of the fiscal agent bank pegged balance which allows for additional funds to invest and an increase in General Fund revenue to invest as a result of increased property tax revenue in FY08. In addition, there was excellent investment management performed by the County Treasurer and an investment committee which oversees investment strategy monthly.
- Miscellaneous revenue decreased \$2.4 million from \$6.1 million in FY07 to \$3.7 million in FY08, a decrease of 39.3%. The decrease was attributed to the allocation of unallocated revenue from FY07 and FY06 to the appropriate funds and revenue line items in FY08.

General Fund expenditures increased \$28.6 million from \$169.5 million in FY07 to \$198.2 million in FY08, a 16.9% increase. Key elements in the increase in General Fund expenditures, other than an increase in salary and related fringe benefit costs due to a 4% across the board salary increase for non-represented County employees, are as follows:



- General government expenditures decreased by \$2.6 million from \$40.4 million in FY07 to \$37.8 million in FY08, a 6.4% decrease. During the year, the County incurred significant costs to implement its new Enterprise Resource Planning (ERP) system. The costs of approximately \$11.4 million were initially accounted for in this category and subsequently reclassified to the “capital outlay” category. In addition, costs of \$1.9 million incurred for the South Valley Health Center project and \$1.7 million incurred for the purchase of County vehicles were subsequently reclassified from the “general government” category to the “capital outlay” category. These reclassifications properly reflect the costs in the correct category and account for the decrease in expenditures for this category in FY08.

- Public Works expenditures increased by \$0.8 million from \$19.9 million in FY07 to \$20.7 million in FY08, a 4.0% increase, which accounted for 2.8% of the increase in General Fund expenditures. During the year, costs of approximately \$1.2 million incurred for the Edith Phase II project were initially accounted for in this category and subsequently reclassified to the “capital outlay” category (capital outlay - \$636,000; capital outlay for others - \$564,000) to properly reflect the costs in the correct category. Also, costs of \$200,505 incurred for the purchase of public works vehicles were initially accounted for in this category and subsequently reclassified to the “capital outlay” category. In addition, there was an increase in expenditures of \$0.4 million for car, gas and oil in the vehicle maintenance program and new payroll expenditures of \$0.5 million for a new development and review program in this category.
- Public Safety expenditures increased by \$11.4 million from \$98.3 million in FY07 to \$109.7 million in FY08, a 11.6% increase, which accounted for 39.9% of the increase in General Fund expenditures. The majority of the increase was attributed to the administration and operation of the Metropolitan Detention Center (MDC). MDC salaries and fringe benefits increased \$5.5 million for the security staff, the administration staff, the community custody program (CCP) staff and the operations staff as a result of a pay increase in FY 08 and the addition of needed staff. Additional expenditure increases at the MDC included \$1.7 million in contractual services, \$1.8 million in carryover expenses and \$0.5 million in insurance costs. Another portion of the increase is attributed to \$2.3 million expended by the Sheriff’s Department to purchase a helicopter. In addition, there was an increase in salaries and fringe benefits of approximately \$1.6 million as a result of a 4% pay increase for the Sheriff’s Department personnel. Also during the year, costs of approximately \$1.7 million incurred for the purchase of public safety vehicles were initially accounted for in this category and subsequently reclassified to the “capital outlay” category to properly reflect the costs in the correct category.
- Capital outlay expenditures increased by \$18.3 million from \$0.0 in FY07 to \$18.3 million in FY08, which accounted for 64% of the increase in General Fund expenditures. The increase is attributed to the reclassification of costs from the “general government”, “public works”, “public safety” and “health and welfare” categories to the “capital outlay” category. The reclassifications relate to expenditures incurred for the new County ERP system of \$11.4 million, for the South Valley Health Center project of \$1.9 million, for the purchase of general government vehicles of \$1.7 million, for the Edith Phase II project of \$1.2 million, for the purchase of public works vehicles of \$200,505, for the purchase of public safety vehicles of \$1.7 million, and for the purchase of health and welfare vehicles of \$61,463.

**TRAN Debt Service Fund.** The TRAN Debt Service Fund is used to account for monies that will be used to pay short-term Tax Revenue Anticipation Notes (TRAN) issued by the County during the year. The notes are not general obligations of the County, but are payable solely out of the anticipated revenues that have been pledged for the payment thereof. The full faith and credit of the County is not pledged to the payment of the notes. TRAN proceeds allow the County to reduce fluctuations in cash flow due to the fact that certain revenues, especially property taxes, are not received evenly each month.

The TRAN Debt Service Fund decreased from \$1,302,446 in FY07 to \$858,501 in FY08, all of which is reserved for the payment of debt service. The fund balance decrease was attributed to less pledged revenues transferred to the fund versus the amount of debt service due for FY08.

Additional comparison of General, Special Revenue, and Debt Service Fund revenue and expenditures of prior years can be found in the statistical section of this report.

**Special Revenue funds.** As of the end of fiscal year 2008, the County's Special Revenue funds reported combined ending fund balances of \$29,993,701, an increase of \$13,897,459. Of the fund balance, \$29,062 is reserved for advances to other funds, \$73,626 is reserved for inventory, \$10,038,269 is reserved for encumbrances, and the remaining fund balance of \$19,852,744 is unreserved undesignated. Key elements in the growth of the total special revenue fund balance are as follows:

- A significant portion of the fund balance increase was due to the addition of the Health Care GRT Fund in FY08, which was established to account for a 1/16% tax rate increase in the County's gross receipts tax rate for the County's health care program. In FY08, this fund generated \$10.4 million in revenues, capital outlay expenditures of \$2.8 million and other financing resources of \$2.5 million resulting in an ending fund balance of \$10.1 million.
- An additional portion of the increase was due to a \$1.5 million increase in the fund balance of the Valuation Fund from \$4.4 million in FY07 to \$5.9 million in FY08, a 34.1% increase. The increase was a result of appraisal fee collections of just over \$4.9 million and expenditures of \$3.4 million. Appraisal fee revenues increased by \$700 thousand from the prior year and can be attributed to increased property tax collections in FY08.
- Another portion of the increase was attributed to a \$2.0 million increase in the fund balance of the Section 8 Housing Voucher Fund from \$148 thousand in FY07 to \$2.2 million in FY08. The increase was a result of a \$2.0 million increase in Housing & Urban Development (HUD) contributions and no significant change in the housing assistance payments from FY07 to FY08 which totaled approximately \$10.8 million.

**Debt Service funds.** As of the end of fiscal year 2008, the County's Debt Service funds reported combined ending fund balances of \$18,502,263, a decrease of \$2,699,923. All of the fund balance is reserved to pay debt service. Key elements of the decrease in the total fund balance are as follows:

- The decrease in the debt service funds fund balance was attributed to a \$3.6 million decrease in the General Obligation Bonds Debt Service Fund from \$4.3 million in FY07 to \$694 thousand in FY08. This was attributed to the partial defeasance of the Series 2002A General Obligation Bond in the amount of \$5,645,000 in FY08.

**Capital Projects funds.** As of the end of fiscal year 2008, the County's Capital Project funds reported combined ending fund balances of \$73,072,290, an increase of \$20,274,742. During the year, as capital projects are completed, the cost of the projects are reclassified as capital assets and removed from the capital project fund. Of the fund balance, \$15,518,172 is reserved for encumbrances and the remaining



fund balance of \$57,554,118 is unreserved undesignated. Key elements of the increase in the total fund balance are as follows:

- The majority of the increase in the capital projects funds fund balance was attributed to the County's sale of \$21,500,000 of General Obligation Bonds (Series 2007, Series 2007A & Series 2008) in FY08. This included \$9,400,000 for roads – Road Construction Fund, \$3,500,000 for storm drains – Storm Sewer Construction Fund, \$2,200,000 for parks and recreation – Parks & Recreation Fund, \$4,300,000 for Sheriff's facilities improvements – Sheriff's Improvement Fund, \$1,100,000 for ADA facilities improvements – Facilities Fund, and \$1,000,000 for library books – Library Fund.
- An additional portion of the increase was attributed to a \$4.6 million increase in the Water/Wastewater Fund from \$16.7 million in FY07 to \$21.2 million in FY08, a 27.5% increase. The majority of the increase was in large part due to grant reimbursements received totaling \$17.3 million and capital outlay expenditures of \$13.7 million.

**Proprietary funds.** The County proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finances of these funds have been discussed in the business-type activities section of the MD&A.

#### **Budgetary Highlights Original Budget – Final Budget Comparison.**

**General Fund.** General fund total original budgeted revenues decreased \$2.2 million or by 1% from \$210.8 million to \$208.6 million (final). General fund total original budgeted expenditures increased \$120 thousand or by less than 1% from \$248.5 million to \$248.6 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The fees for services original revenue budget decreased \$2.2 million from \$16.4 million to \$14.2 million. The decrease was attributed to less than expected funding provided by the City of Albuquerque for operations of the Metropolitan Detention Center (MDC) for FY08.
- The general county original expenditure budget decreased \$2.2 million from \$29.8 million to \$27.6 million. The decrease was primarily attributed to the reclassification of \$2.4 million of FY07 Senate Bill 88 gross receipt tax monies to public works for the East Mountain Sub-Station Road project (\$1.2 million) and for the Edith Phase II project (\$1.2 million). The Senate Bill 88 funds were earmarked for the phase-in of fire department staff, public safety capital needs, fleet replacement, public works infrastructure, and increase funding for the MDC.
- The zoning original expenditure budget increased \$1 million from \$2.7 million to \$3.7 million primarily due to the reclassification of budgeted funds from Health & Welfare for payroll purposes of the Education & Planning section, the Water Resources section and the Zoning Land Review/Enforcement section of the Zoning Department. In addition, the increase was attributed to the reclassification of \$319 thousand in budget to the contractual services line item.

- The other original expenditure budget increased by \$2.2 million from \$4.8 million to \$7.0 million due to the reclassification of budgeted funds for the continued implementation of the new county-wide Enterprise Resource Planning (ERP) financial reporting system which officially became operational on July 7, 2008. Phase two of the project began in July 2008 and will consist of an updated budget preparation system, which should be operational before the end of FY09.
- The public works original expenditure budget increased \$2.4 million from \$21.6 million to \$24.0 million. The increase in budgeted expenditures was attributed to the reclassification of \$2.4 million of FY07 Senate Bill 88 gross receipts tax monies from general county for the East Mountain Sub-Station Road project (\$1.2 million) and for the Edith Phase II project (\$1.2 million).
- The sheriff original expenditure budget increased \$1.1 million from \$31.7 million to \$32.6 million and was attributed to a budget reclassification from the FY08 Senate Bill 88 gross receipts tax monies to allow the Sheriff's department to purchase vehicles to replace or add to their fleet.
- The metropolitan detention center (MDC) original expenditure budget decreased \$2.2 million from \$69.4 to \$67.2 million. A significant portion of the decrease was attributed to the reclassification of \$1.7 million in budgeted funds to the "other" category and represents MDC's support of the new County ERP system for FY08. In addition, a budget reclassification of \$415 thousand to Public Works was performed to cover costs for a North Valley fuel station.

**TRAN Debt Service Fund.** TRAN Debt Service Fund total original budgeted revenues and total original budgeted expenditures did not change during the fiscal year.

### **Budgetary Highlights – Budget to Actual**

**General Fund.** General Fund revenues exceeded budgetary estimates by \$28,705,696 or by 13.8%. General Fund expenditures were less than budgetary estimates by \$51,534,367 or by 20.7% thus eliminating the need to draw upon existing fund balance. During the year the County incurred an excess of revenues over expenditures and other financing sources in the amount of \$23,462,781. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$16,386,302. The budget projections estimated a 95% collection rate of current property taxes within the County as of June 30, 2008. The actual collection rate was 95.86%. The significant reason for the positive variance was that current property tax collections were \$14,078,492 greater than budget (17.6% of budget) which was reflective of the 11.2% increase in the assessed taxable property valuation from the 2007 assessed taxable valuation which was higher than expected. In addition, delinquent tax collections, interest on current and delinquent tax collections, and penalties on current and delinquent tax collections exceeded projections by \$2,747,323.
- Gross receipt tax (GRT) revenue had a positive variance of \$2,603,562. On January 1, 2007 a 1/16% gross receipt tax increase took effect for the County's Healthcare Gross Receipts Tax Program. In early FY08, \$1.9 million was receipted to the General Fund in this line item and later transferred to the Health Care GRT Fund established in FY08 to account for this revenue. The

transfer is reflected in the “transfer out” line item under other financing uses. Although the GRT could potentially be a volatile revenue source, the historical trend has been positive for the County. In FY08 the County had a stable year with GRT collections of just over \$704 thousand over budget after taking into account the adjustment stated above.

- Licenses and permits revenue had a negative variance of \$1,308,868. The variance was primarily attributed to a decrease of \$958,241 in zoning/building fees and \$606,263 in construction permits that is reflective of the weak construction sector in 2008 and the double-digit decline in the housing construction industry.
- Fees for services revenue had a positive variance of \$1,772,335. The increase was primarily attributed to higher than expected commissary sales of \$1,597,414, state department probation/parole program fees of \$873,426, and state criminal alien assistance program (SCAAP) fees of \$278,823 which were all related to MDC operations. Other increases were attributed to higher than expected public works design review fees of \$717,485 and County Clerk chargeback fees of \$366,387. This revenue was offset by lower than expected contributions of \$2,320,603 from the City of Albuquerque for operations of the MDC.
- Investment income revenue had a positive variance of \$8,006,171. The increase was in part attributed to a conservative budget estimate made two years ago by the County Treasurer as part of the biennial budget process. It can also be attributed to a better rate of return on short-term investments, the elimination of the fiscal agent bank pegged balance which allows for additional funds to invest and an increase in revenue to invest as a result of increased property tax revenue in FY08. In addition, there was excellent investment management performed by the County Treasurer and an investment committee which oversees investment strategy monthly.
- Finance and administration expenditures had a positive variance of \$2,067,521. A significant portion of the variance was attributed to lower property insurance premiums of \$708,625, less than expected insurance deductibles of \$339,326, less than expected expenditures for Law Enforcement Officer Liability claims in the amount of \$431,364 and lower than expected insurance fleet replacement costs of \$136,949. In addition, there were less than expected expenditures for ambient weather of \$150,388, data processing equipment and software of \$91,090 and safety renovations of \$38,605. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- General county expenditures had a positive variance of \$22,320,065. This variance was primarily attributed to General Fund salary savings of \$5,767,083 at the end of the fiscal year and \$5,270,461 of unused funding, which was closed to the line item “closed/defunct” in FY08 and originally budgeted in the General Fund for the County’s healthcare tax program and then subsequently budgeted in another fund. There was also \$2,300,000 budgeted for economic development which did not materialize, \$1,494,655 budgeted for items earmarked to be paid for with the Senate Bill 88 gross receipt tax monies that did not occur, \$1,027,300 budgeted for capital expenditures that did not get expended, \$2,085,963 budgeted for election expenses that were not used, and \$890,000 budgeted for building and structures that did not materialize. In addition, there were \$543,520 less in telephone expenditures, \$892,313 less in capital expenditures, \$660,988 less in space contingency expenditures, \$860,583 less in rent expenditures, and \$291,556 less in expenditures

from the South Valley Health Center carryover. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.

- Other expenditures had a positive variance of \$5,130,028. The majority of the variance was attributed to budgeted expenditures of \$4,679,554 for the new County ERP financial system that were carried over into FY09 to be used for Phase II of the project. In addition, there was lower costs associated with funding City of Albuquerque mandates in the amount of \$429,956. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Sheriff expenditures had a positive variance of \$1,645,580. A majority of the variance was attributed to \$1,776,148 for the purchase of new public safety vehicles and aircraft which did not materialize. In addition, there was a positive balance of \$250,000 for T-1 microwave radios which was not spent prior to year-end. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Metropolitan Detention Center (MDC) expenditures had a positive variance of \$12,939,574. A significant portion of this variance was attributed to \$6,610,178 of carryover budgeted funds which were not expended and less than expected costs for salaries and fringe benefits of \$2,455,400. There was also \$1,017,516 of law enforcement claims budgeted funds which were not expended, less than expected out of County costs of \$735,195, less than expected property insurance costs of \$312,211, budgeted funds of \$579,472 for other insurance which were not expended, \$254,803 budgeted for insurance deductibles which did not materialize, and \$235,881 of worker's compensation that did not occur. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Culture and recreation expenditures had a positive variance of \$1,673,509. The variance was partly attributed to \$484,200 in tennis court renovation costs which were not expended, \$164,414 in non-encumbered carryover costs which were not used and less cost associated with funding City of Albuquerque mandates in the amount of \$304,675. In addition, there were \$24,000 less in data processing equipment and software costs, \$24,048 less in building repairs, \$17,927 less in grounds maintenance and improvement expenditures, \$29,817 less in contractual services costs, \$24,972 less in miscellaneous charge backs, and \$112,593 less in repair and demolition expenditures. The remainder was attributed to less than expected costs in various operating items.

**TRAN Debt Service Fund.** There was no revenue to budget and expenditure to budget variations for this fund.

### **Capital Asset and Debt Administration**

**Capital assets.** The County's investment in capital assets for its governmental and business type activities as of June 30, 2008 amounts to \$542,618,727 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan both long and short range financing for the

County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each commission district to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by general obligation bonds are placed on the ballot in the next general election. The general obligation bond schedule is based on a two-year cycle and issuance is currently limited to \$18 million dollars by the Board of County Commissioners in order to maintain the same property tax rate. Other Capital improvement projects are included in the State of New Mexico Infrastructure Program for funding consideration. Major capital asset events during the current fiscal year included the following:

- Phase I of the County's implementation of a new Enterprise Resource Planning (ERP) software system was completed. The ERP solution consolidated four disparate general ledgers and created new systems for budgetary controls, accounts payable and receivable processes, grants management, funds and treasury management, cashiering, purchasing, fixed assets and inventory, accounting, and project and plant maintenance. The County officially began use of the system on July 7, 2008.
- Construction commenced on the South Valley Water Expansion Project Phase II transmission line. It will make available a distributed drinking water system to 1000 homes between Metzgar Road, Raymac Road, Coors Boulevard and the Rio Grande. The project is 87% complete, which includes the installation of 1,286 water services and the activation of approximately 157 fire hydrants.
- Construction on the main building of the South Valley Health Commons, which commenced in FY07, was completed in February 2008. The renovation and addition to the existing Psychiatric Services Rehabilitation (PSR) building was completed in June 2008. The new complex will provide facilities for First Choice Community Healthcare, NM Department of Health and its Women, Infants and Children Program, and UNMH's Family Practice and Psycho-Social Rehabilitation Programs.
- Construction commenced on the Metropolitan Assessment and Treatment Service (MATS) transitional housing facility and intake area. The intake area was completed in June 2008 and the housing facility was completed in September 2008.
- Phase I renovations to bring Hiland Theater into building code compliance and complete major structural improvements was completed in FY08. Phase II to improve the exterior façade of the building commenced in FY08 and is expected to be completed in early FY09. Phase III renovation of the theater west wing will commence in FY09.

- Improvements to Edith Boulevard continued in FY08. Improvements include reconstruction of Edith from Candelaria to Montano. The project will widen the existing two-lane roadway to a five-lane facility with curb, gutter, sidewalks, bike lanes and new storm drainage and is scheduled for completion in FY09.

**County of Bernalillo's Capital Assets**  
(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$126,161,702	\$123,977,888	\$ 639,444	\$ 435,352	\$126,801,146	\$124,413,240
Buildings	169,298,644	169,573,454	4,577,349	3,342,077	173,875,993	172,915,531
Machinery and equipment	12,399,882	8,687,064	317,213	1,127,281	12,717,095	9,814,345
Infrastructure	161,043,915	147,171,654	-	-	161,043,915	147,171,654
Leasehold improvements	2,401,189	2,529,724	-	-	2,401,189	2,529,724
Construction in progress	63,704,927	60,863,593	-	14,797	63,704,927	60,878,390
Art	2,074,462	1,903,662	-	-	2,074,462	1,903,662
Total	\$537,084,721	\$514,707,039	\$5,534,006	\$4,919,507	\$542,618,727	\$519,626,546

Additional information on the County's capital assets can be found in note IV-C. on pages 57-58 of this report.

**Debt administration.** The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

The County will maintain direct tax supported debt at a manageable level that takes into account economic factors including population, assessed valuation, and other current and future tax-supported essential needs. The decision to issue bonds, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners decides on an issue-by-issue basis which method of sale would be most appropriate. The County encourages the use of competitive sales for all issues unless circumstances dictate otherwise. Negotiated sales are considered if the sale is a complex financing structure. If a negotiated sale is anticipated, the Budget and Finance Division and County Bond Counsel establish a list of pre-qualified underwriters.

**General Obligation Bonds.** At the end of the current fiscal year, the County had total general obligation debt outstanding of \$98,835,000. The County has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety

improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends upon debt service schedules and property valuation and is set by the New Mexico Department of Finance and Administration. In fiscal year 2008, this tax is approximately \$0.888 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from February 1, 2010 through August 1, 2027. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.75%) of the \$13.2 billion taxable value of property within Bernalillo County, as of June 30, 2008. The County may currently issue up to an additional \$428.8 million of general obligation bonds. The net general bonded debt per capita is \$152.39. The lowest per capita amount in the last ten fiscal years was \$112.73 in fiscal year ended June 30, 2002. The County's ratings on uninsured general obligation bonds as of June 30, 2008 were:

- Moody's Investors Service, Inc. - Aa1
- Standard & Poor's Rating Service - AAA
- Fitch Agency - AA+

At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$170,005,000. The County has seven outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 1999 series, the 2002 series, the 2005 partial refunding series, and the 2008 refunding series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. The net revenue bonded debt per capita is \$263.97. The lowest per capita amount in the last nine fiscal years was \$238.84 in fiscal year ended June 30, 1999. The pledged revenue coverage of gross receipts tax revenues to debt service requirements is 3.79. The lowest pledged revenue coverage in the last nine fiscal years was 2.19 in fiscal year 2002. These bonds have retirement dates ranging from April 1, 2009 through April 1, 2027. Standard and Poor's has rated the County's revenue bonds AAA.

#### General Obligation and Revenue Bonds Outstanding

	Governmental Activities		Business-type Activities	
	2008	2007	2008	2007
General obligation bonds	\$ 98,835,000	\$ 88,580,000	\$ -	\$ -
Revenue bonds	170,005,000	175,500,000	1,700,000	1,740,000
Total	\$268,840,000	\$264,080,000	\$1,700,000	\$1,740,000

As presented above, the County's total outstanding bond debt increased by \$4,720,000 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 61-63 of this report and in the statistical section of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The County's Board of Commissioners and Manager considered many factors when setting the fiscal year 2009 budget. The national picture simply cannot be ignored-as a country we face uncertain economic times ahead. According to forecasts by the University of New Mexico's Bureau of Business and Economic Research, the outlook for the New Mexico economy is one of slow growth for the next four quarters, and then picking up slightly thereafter. Non-farm employment growth is expected to attain only 0.8 percent in 2008, rising to 1.3 percent in 2009, and near 1.5 percent annually thereafter. New Mexico personal income growth will reach 5.4 percent in 2008, and remain in the 4.5 – 5.5 percent range throughout 2009. The unemployment rate will remain near 4.0 percent throughout. The outlook for the Albuquerque MSA economy is very slow growth in 2008, followed by a drawn-out recovery in 2009, and back to some normalcy by 2010. The Albuquerque MSA employment growth has averaged only 0.5 percent during the last four quarters (2007:3 – 2008:2), and more of the same is expected for the remainder of 2008 and into 2009. Employment growth is expected to reach only 0.4 percent in 2008, followed by a 1.2 percent advance in 2009. Thereafter, growth will rise to near 2.0 percent and remain there through 2013. Albuquerque MSA personal income growth will remain near 5.0 percent annually and the unemployment rate will remain near 4.0 percent.

The major weakness of the Albuquerque MSA economy was concentrated in the construction and manufacturing sectors. Overall, the Albuquerque MSA economy added 1,500 net new jobs during the second quarter of 2008, but these two sectors combined to lose 2,667 jobs and the professional and business services sector lost another 233 jobs, for a total of 2,900 jobs lost. In the construction sector employment has declined since the first quarter of 2007, but the employment losses accelerated during the third quarter as news of the sub-prime mortgage crisis spread and lenders became more wary. Another contributing factor was the rapidly rising prices of construction materials as well as the completion of several large projects.

In the manufacturing sector, employment fell 5.4 percent in the second quarter. The major source of the employment drop was Intel, which lost 1,100 jobs as a result of the closing of Fab11 in December 2007. Intel employment is now at approximately 3,500, down from 5,500 in the summer of 2006. Eclipse Aviation, troubled by production line problems, eliminated 650 jobs. The major contributors of new jobs were the government and educational, health services, and social assistance sectors. Local government employment increased 2.8 percent, which includes hundreds of jobs at the recently opened Isleta Pueblo hotel and convention center. The other sector adding more than a few hundred jobs was retail trade. Retail trade remains strong despite the fading economy. Given the weakness in construction and manufacturing, the economy will remain weak in the near term.

Strength in the economy over the next few years will be the educational and health services sector, where employment is expected to grow consistently near 3.0 percent each year through 2013. UNM is partnering with Legacy Hospital Partners, Inc, of Plano, Texas to build an acute care teaching hospital in Sandoval County. Presbyterian Healthcare Services is planning a major, full-service hospital in Rio Rancho. In addition, expansions are under way at the Lovelace Westside hospital, and at Concentra Health Services of Addison, Texas' three Albuquerque locations.



Other sources of strength in the coming years include the information, professional and business services, and financial activities sectors. In the information sector, the film industry will continue to thrive. Sony Imageworks is building a digital special effects studio in Albuquerque, and Hewlett-Packard plans to open a technical support center in Rio Rancho. Pangea Pictures Corp. of Los Angeles plans to build a visual effect and post-production studio in Albuquerque. In addition, Verizon will be adding a couple of hundred jobs fairly soon. In the financial services sector, new jobs will come at Fidelity Investments, currently building a facility in Mesa Del Sol.

Thus, the Albuquerque MSA economy will grow very slowly in 2008, recover slowly in 2009 and come back to a more normal state in 2010.

### **Request for Information**

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy County Manager for Budget and Finance, One Civic Plaza, NW – 10<sup>th</sup> Floor, Albuquerque, New Mexico 87102.